U.B.C. Planning Papers

School of Community and Regional Planning

University of British Columbia
Vancouver, British Columbia

ISSN: 0828-2412

Canadian Government Housing Expenditures: A Ten Year Review

DP #19
March 1990

J.D.Hulchanski

U.B.C. PLANNING PAPERS
Discussion Papers #19

School of Community & Regional Planning
University of British Columbia
6333 Memorial Road
Vancouver, B.C. V6T 1W5
Canada

91-01087/

Canadian Government Housing Expenditures:

A Ten Year Review

J. David Hulchanski
Director
UBC Centre for Human Settlements
Associate Professor
School of Community and Regional Planning
THE UNIVERSITY OF BRITISH COLUMBIA

A government budget is a statement of priorities: who will get what from the taxes and other revenues collected. Finance Minister Michael Wilson's budgets receive so much attention because, in 1990 for example, some $140 billion is being distributed.
Where does housing fit into national spending priorities? What is the trend over the past decade? Can Canada afford to spend more on housing? Should priorities for budget expenditure and tax benefits be shifted?

Two Types of Housing Expenditures

Government spends money in two major ways: directly, through budget expenditures, and indirectly, through the tax system by giving tax concessions. The budget is the visible expenditure system: government expenditures through the tax system comprise the hidden expenditure system. Auditor General Kenneth Dye refers to tax expenditures as a "huge hidden budget in the financial affairs of Canada" which has a "massive impact" on the deficit. Dye estimated that in 1984, for every $100 spend directly, $30 to $50 was spent indirectly by way of tax expenditures.[1]

The major housing related tax expenditure is the tax-free status given to capital gains on the sale of an owner occupied house. When an owner occupied house is sold, no tax is paid on its increased value. The government foregoes the collection of about $3 to $4 billion annually. This one housing program alone is more expensive than all other categories of federal housing expenditures combined.[2]

The data provided in the accompanying tables do not include housing related tax expenditures. Both categories, *budgetary* expenditures and *tax* expenditures, should be considered together. Unfortunately, an up-to-date estimate of tax expenditures is not available. Unlike the United States Government, the Government of Canada does not publish an annual tax expenditure budget. The "hidden" expenditures remain hidden in Canada.

Table 1

Federal Expenditures by Program, 1989

Government of Canada

(Billions of Dollars)

Program	Expenditure (Billions of dollars)	Percent of Total Expenditures
Old Age, Income Supplements, Spouses' Allowances	$15.2	11.5%
Economic & Regional Development	13.4	10.1%
Defence	11.0	8.3%
Unemployment Insurance	11.0	8.3%
Fiscal Arrangements	8.1	6.1%
Insurance and Medical Care	6.7	5.0%
Canada Assistance Plan	4.6	3.5%
Services to Government	4.2	3.2%
External Affairs and Aid	3.6	2.7%
Family Allowances	2.6	2.0%
Justice and Legal	2.5	1.9%
Social Assistance -- Indian and Inuit	2.5	1.9%
Education Support	2.2	1.7%
Direct Job Creation and Training	1.9	1.4%
Housing	1.7	1.3%
Veterans Benefits	1.6	1.2%
Television, Film and Radio	1.1	0.8%
Parliament	0.2	0.2%
Other	5.4	4.1%
Total Program Expenditures	**$99.5**	**75.0%**
Public Debt	33.2	25.0%
Total Net Expenditures	**$132.7**	

Source: Public Accounts of Canada, 1989, Vol. 1, Table 1.7. Compiled by D.Hulchanski.

Canada's Spending Priorities

Table 1 provides a summary of how the Canadian government spent $133 billion during the 1988/89 fiscal year. The percent of total expenditures column is a good summary of priorities: how the $133 billion was carved up.

To find housing, start at the bottom of the list. Only 1.3% of total budgetary expenditures went to assist Canadians with their housing problems. This figure represents, for the most part, the money allocated to Canada Mortgage and Housing Corporation.

Table 2 provides a ten year summary of federal housing expenditures. As a percent of total expenditures the proportion going to housing has been steadily declining. In the first half of the decade, housing averaged 1.7% of total federal expenditures. During the second half it fell to 1.4%. Housing has been and remains one of the smallest program expenditure categories of the federal government.

Table 2

Federal Housing Expenditures, 1980 to 1989

Government of Canada

(in millions of dollars)

Year	Housing Expenditures	Total Federal Expenditures	Housing as a % of Total Expenditures	Half Decade Averages
1980	$896	$53,422	1.68%	1980
1981	1,058	62,297	1.70%	to
1982	943	74,873	1.26%	1984
1983	1,853	88,521	2.09%	Avg:
1984	1,598	96,615	1.65%	1.68%
1985	1,657	109,222	1.52%	1985
1986	1,429	111,237	1.28%	to
1987	1,454	116,389	1.25%	1989
1988	1,885	125,535	1.50%	Avg:
1989	1,734	132,715	1.31%	1.37%
Total	**$14,507**	**$970,826**	**1.49%**	

Source: Public Accounts of Canada, 1989, Vol. I, Table 1.7. Compiled by D. Hulchanski.

The Decline in Market Housing Subsidy Programs

Before jumping to the conclusion that social housing spending is dramatically declining through the decade, a closer look explains where the major change has taken place.

It is true that spending on social housing has been cut a number of times since the election of the Progressive Conservative government in September 1984. The most recent cuts were the April 1989 cut in the co-op housing budget and the elimination of the rental housing rehabilitation program, and the February 1990 $50 million cut in the social housing budget.[3]

The major share of the decline in housing expenditures during the 1980s took place in the market housing category. The graph in Figure 1 indicates that spending on housing as a percent of total spending fluctuated in the early 1980s. When interest rates were high and housing starts fell during the recession in the early 1980s, a private rental supply program and two home ownership assistance programs were introduced. As Table 3 points out, these were very expensive.

The Canada Rental Supply Program assisted in the construction of about 22,000 rental units between 1981 and 1984 at a subsidy cost of $125 million as of 1989. A stream of subsidies will continue to be paid for several more years.

The Canadian Home Ownership Stimulation Program during 1982 and 1983 distributed $3,000 grants to people who bought a house. This cost $800 million. From 1982 to 1984 the Canada Mortgage Renewal Plan helped home owners who were not able to afford the high interest rates when their mortgages had to be renewed. This program cost $50 million.

In addition to these three programs, the federal government bailed out the deficit in the Mortgage Insurance Fund (MIF) in 1984 and 1985. Any mortgage insured by National Housing Act pays fees into the MIF so that the mortgage holder can be paid off by the fund if the owners default on the mortgage. The MIF protects the lenders, but, during the recession of the early 1980s, not the taxpayers. This bailout of the MIF is yet another rarely mentioned form of subsidy to private sector housing.

Through the 1980s the taxpayer also continued to pay for the Assisted Rental Program (ARP), which subsidized the construction of about 122,000 rental units in 1975 through 1978. Close to $400 million in subsidies was provided to the owners of these rental buildings. ARP subsidies will also continue for several more years.

Table 3

Federal Market Housing Subsidy Expenditures, 1980 to 1989
Government of Canada
(in millions of dollars)

Year	Assisted Rental Program 1975-78	Canada Rental Supply Plan 1982-84	Cdn. Home Ownership Stimulation Plan 1982-83	Cda. Mortgage Renewal Plan 1982-84	Mortgage Insurance Fund (bailout)	Market Housing Subsidy TOTAL	Total as a % of Fed. Housing Expenditure
1980	$25.0					**$25.0**	3%
1981	29.7					**29.7**	3%
1982	32.3	$1.2	$361.8	$6.7		**402.0**	43%
1983	36.8	5.4	416.9	33.0		**492.1**	27%
1984	40.9	15.1	20.5	8.1	$367.5	**452.1**	28%
1985	33.5	15.4	0.1	0.1	195.6	**244.7**	15%
1986	47.4	23.2				**70.6**	5%
1987	51.9	24.1				**76.0**	5%
1988	47.7	24.1				**71.8**	4%
1989	39.7	22.6				**62.3**	4%
Total	**$384.9**	**$131.1**	**$799.3**	**$47.9**	**$563.1**	**$1,926.3**	**13%**

Source: Canada Mortgage and Housing Corporation, National Office. Compiled by D. Hulchanski.

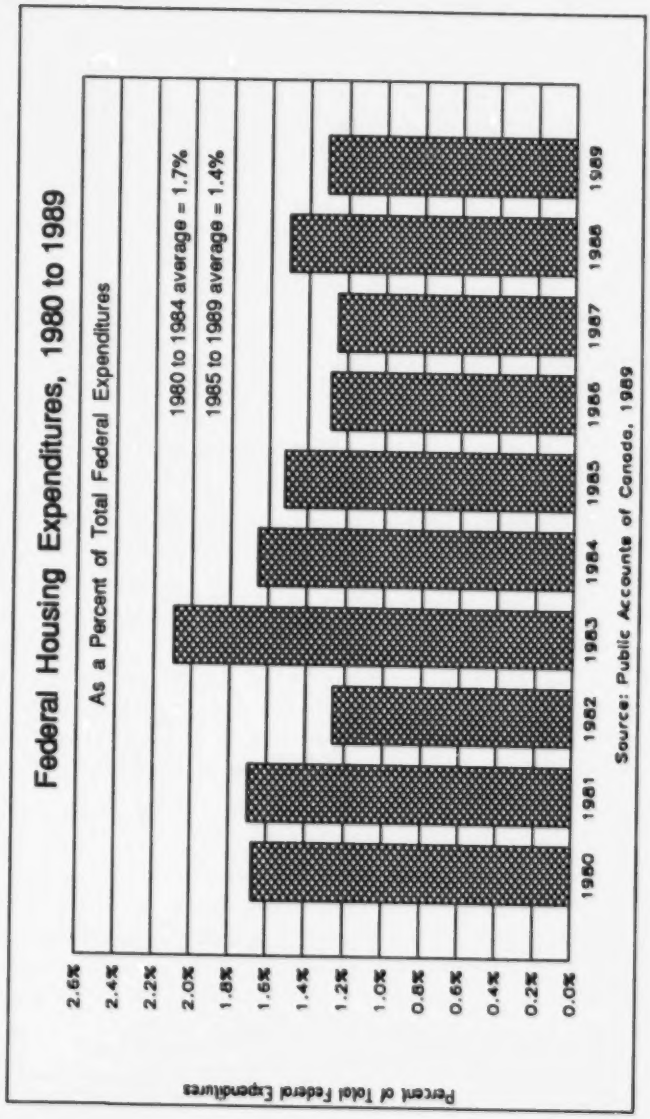
Federal Housing Expenditures, 1980 to 1989
As a Percent of Total Federal Expenditures
1980 to 1984 average = 1.7%
1985 to 1989 average = 1.4%
Percent of Total Federal Expenditures
2.6%
2.4%
2.2%
2.0%
1.8%
1.6%
1.4%
1.2%
1.0%
0.8%
0.6%
0.4%
0.2%
0.0%
1980 1981 1982 1983 1984 1985 1986 1987 1988 1989
Source: Public Accounts of Canada, 1989

Figure 1

In total, close to $2 billion was spent on non-targeted private sector housing programs in the 1980s, mainly during the first half of the decade (see Figure 2). It is these expenditures which account for much of the decrease in the proportion of the annual federal budget allocated to housing. These market housing funds were not reallocated to the growing social housing needs of the decade. In terms of the politics of the budget process -- who gets what -- social housing needs cannot match the middle class lobby for ownership assistance in tough times and the development industry's lobby to keep rental subsidy programs in the private rather than non-profit and co-op sectors.

These market housing subsidies are only the *direct* budgetary expenditure programs. A major rental housing subsidy to wealthy individuals via the tax system, the Multiple Unit Residential Building (MURB) tax shelter, was introduced in 1975 and continued until 1981, though a stream of subsidies continues to this day. As many as 200,000 rental units may have been subsidized by this program at a cost of at least $2 billion. No one knows for sure how many MURB units were built and at what cost to the taxpayer, since these details are hidden in individual tax returns.

An expensive home ownership tax expenditure, the Registered Home Ownership Savings Plan (RHOSP) was introduced in 1974 and discontinued in 1985. Up to $10,000 could be saved tax free, costing some $100 million in lost revenues per year. In addition the various home owner grants during the 1980s were given tax exempt status, resulting in a $230 million loss in tax revenue, according to Department of Finance estimates.

The vast majority of all private sector rental housing built between 1975 and the mid 1980s was directly or indirectly subsidized. Since many of these units were registered as condominiums when they were built, as a way of getting around condo conversion regulations, federal tax dollars were in effect subsidizing condominium developers. Depending upon the program, the units only have to remain rental for a certain period of time. In addition, clever owners can find ways to rid themselves of these agreements. The units were rarely affordable, renting at the upper end of the market, and many were not even rental for very long.[4]

In terms of the politics of who gets what, social housing advocates have never been able to convince government to use at least some of the major private sector subsidy program money for long term investments in the nation's stock of non-profit and co-op housing. Even when a decision is made to allocate more federal funds for housing, little if any of this money has ever been directed toward addressing the need for social housing.

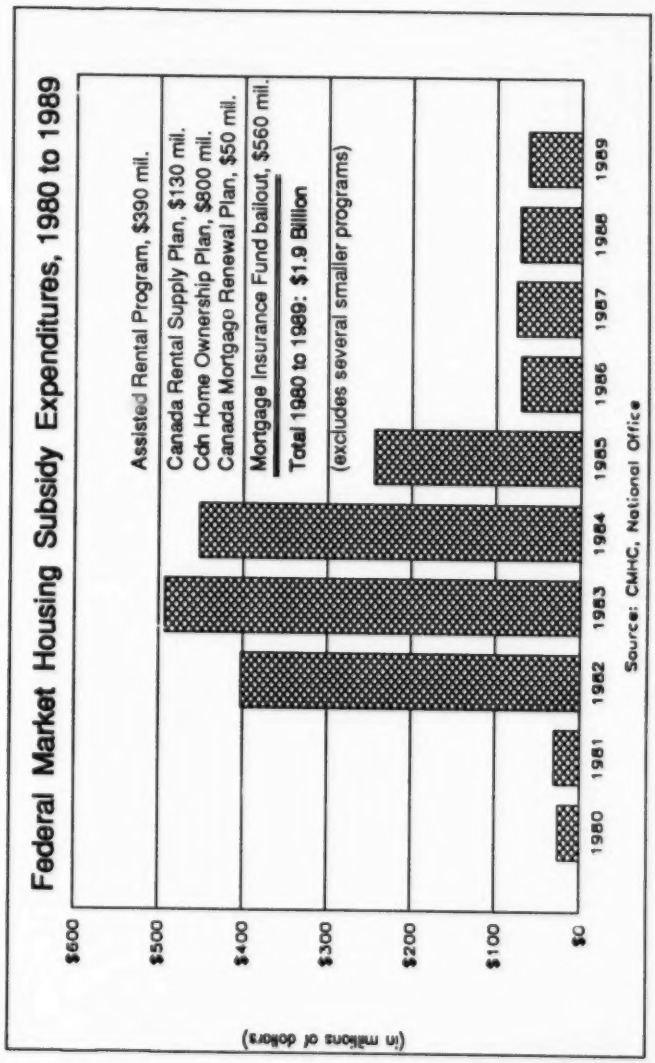
Federal Market Housing Subsidy Expenditures, 1980 to 1989
Assisted Rental Program, $390 mil.
Canada Rental Supply Plan, $130 mil.
Cdn Home Ownership Plan, $800 mil.
Canada Mortgage Renewal Plan, $50 mil.
Mortgage Insurance Fund bailout, $560 mil.
Total 1980 to 1989: $1.9 Billion
(excludes several smaller programs)
(in millions of dollars)
$600
$500
$400
$300
$200
$100
$0
1980 1981 1982 1983 1984 1985 1986 1987 1988 1989
Source: CMHC, National Office

Figure 2

Social Housing Expenditures

The majority of the annual budget expenditures on housing go towards paying the long term debt on all public housing and social housing units ever built in Canada's history. The first public housing projects were built in the late 1940s and early 1950s. The majority of the $1.7 billion spent on housing in 1989 pays the federal share of the subsidies on some 500,000 public housing, non-profit housing, co-operative housing and rent supplement units. These units form less than five percent of Canada's housing stock.

In the social housing expenditure category there has never been a significant temporary boost in spending to help address some special need -- as there has been for private rental and home ownership. As a program priority social housing has slowly declined throughout the 1980s. Even with the attention the homeless received during the International Year of Shelter for the Homeless (1987), there was no special program to help alleviate some or all of this part of Canada's housing problem. The plight of single mothers is well known yet there is no government consideration of addressing this need.

Increased Spending on Housing? What about the Deficit?

Can Canada afford to spend more on housing? What about the massive federal deficit? As Table 1 indicates, 25% of 1989's federal expenditures went toward paying the debt. This is indeed a serious burden.

The issue, however, is one of tax revenues and budget priorities. There is a deficit because enough taxes and other revenues were not collected to cover expenditures. This began happening in the mid 1970s. The annual budget deficit was either small or there was a surplus prior to the 1970s.

There has been a tremendous shift in the burden of taxation in Canada over recent decades. In particular, the corporate income tax share of the tax burden has fallen from about 20% of revenues to 11% in 1989. This dramatic fall began in the early 1970s. The share paid by individuals has increased from 30% to 44% over the same period. In addition, the share average Canadians pay in unemployment contributions has climbed from 4% of total federal revenues to 11%.

This dramatic shift in who pays taxes, how much they pay and why government revenues have not kept pace with expenditures is all carefully documented and explained in *Globe and Mail* reporter Linda McQuaig's recent book, *Behind Closed Doors: How the Rich Won Control of Canada's Tax System...and Ended up Richer.*[5]

Alternatives Do Exist

These trends can be reversed. A fairer tax system can be introduced. Canada could introduce a net wealth tax, something which 17 other OECD nations have.[6]

In addition to real tax reform, budget priorities can be shifted.

What if Finance Minister Michael Wilson announced that he was to start spending an additional $700 million a year on social housing programs, increasing this to about $1 billion per year by the year 2000? The editors of *Canadian Housing* would certainly congratulate him, but many in the business community would begin howling about the deficit and about where these new funds were to come from. Canada can not afford such an expensive program, at least until the deficit is taken care of, many would shout.

If, on the other hand, Michael Wilson was to announce that wealthy individuals would now be able to shelter even more of their income in Registered Retirement Savings Plans (RRSPs), at a cost of $700 million in lost tax revenues next year and as much as $1 billion by the year 2000, what would the public response be? The RRSP is a tax expenditure -- the true costs are hidden -- so it never shows up in the federal budget or in the public accounts.

Michael Wilson is in fact increasing the limit on RRSP contributions. The legislation was tabled in December. The only howling from the business community is that he didn't do it sooner, as he originally promised. No one in the nation's business community can be found asking where this $700 million is to come from and who is to pay for it. Michael Wilson has not even told us that it will cost us $700 million in the first year. The National Council of Welfare had to obtain the figures from Finance Department sources.

Ann Gagnon of the National Council of Welfare, in condemning this RRSP enrichment proposal, stated that "We believe the proposed earnings limit of $86,111 is excessively generous" and that "the government is giving a tax break to the wealthiest Canadians who can well afford to take care of their own pension needs."[7] Few Canadians probably know of this proposal and fewer will have heard about the National Council of Welfare's critique of it. About $70 billion is now sheltered in RRSP's. In 1985, the last time estimates were made public, the tax advantage on savings in RRSP's cost $4.9 billion in lost revenue.[8] Few lower income people can afford to contribute anything to an RRSP.

The RRSP is only one of dozens of examples of small changes in priorities which could be made in order to achieve greater justice in the provision of and access to day care, health care, social services, education and housing. If the February 1990 federal budget announced a five percent cut in defence spending, instead of the five percent increase in

what is already one of the major program spending categories, $550 million would be available right now for other purposes. There are many such ways of redirecting existing spending without making the deficit worse.

The Failure of Leadership

The only real trend in federal social housing expenditures has been one of general neglect. No new programs or increased levels of funding for existing programs have been introduced. Where increased spending on housing has taken place, it has been for market housing and home ownership. There has been a failure of leadership in addressing the housing problems of Canadians by the federal government, both the Liberal and Conservative governments, throughout the 1980s.

References

1. *Report of the Auditor General of Canada to the House of Commons*, Ottawa, March 1984.

2. The best review of housing related tax expenditures is: Rob Dowler (1983) *Housing Related Tax Expenditures: An Overview and Evaluation*, Major Report No. 22, Centre for Urban and Community Studies, University of Toronto. For a good general analysis of tax expenditures in Canada see: Kenneth Woodside (1983) "The Political Economy of Policy Instruments: Tax Expenditures and Subsidies in Canada," Chapter 8 of *The Politics of Canadian Public Policy*, M.M. Atkinson and M.A. Chandler, University of Toronto Press.

3. For a discussion of the decline in government support for the co-operative housing program, see: Joan Selby (1989) "Assault on Affordable Housing: Co-operative Housing Under Fire," *Canadian Housing*, 6(4), Winter, pp. 4-5.

4. For an introduction and overview of all the major home ownership and rental sector subsidy programs see: J.D. Hulchanski (1988) *Canada's Housing and Housing Policy: An Introduction*, UBC Planning Papers, School of Community and Regional Planning, University of British Columbia.

5. Linda McQuaig (1987) *Behind Closed Doors: How the Rich Won Control of Canada's Tax System...and Ended up Richer*, Toronto: Viking/Penguin Books. The National Council of Welfare also believes that the wealthy are not paying their fair share of taxes. For an overview of the impact of tax reform and other tax measures introduced in recent years, see: National Council of Welfare (1989) *Social Spending and the Next Budget*, Ottawa.

6. For a discussion of the net wealth tax, see: Alex Michalos (1989) "How to Afford New Housing Programs: A Net Wealth Tax," *Canadian Housing*, 6(3), Fall, pp. 60-61. There are many ways to raise revenues in a fairer fashion. See, for example, Neil Brooks and Linda McQuaig (1989) "OK Michael Wilson Here's the Alternative," *This Magazine*, 23(5), December, pp. 15-20.

7. "RRSP Plan Favors Rich, Council Says," *Globe and Mail*, 28 February 1990. For details about the costs and inequities of the RRSP system, see: National Council of Welfare (1990) *Pension Reform: A Report by the National Council of Welfare*, Ottawa.

8. Canada, Department of Finance (1985) *Account of the Cost of Selective Tax Measures*, Ottawa.